

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2011

City of Mexico Beach, Florida
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September 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Mexico Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis

Management's discussion and analysis provide an easily readable analysis of the City's financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets of the City exceeded total liabilities by \$12,939,889 (net assets). Of this amount, \$2,714,845 is unrestricted net assets for governmental activities and \$1,215,273 is unrestricted net assets for business-type activities, \$229,815 is restricted net assets for governmental activities and \$1,820,782 is restricted net assets for business-type activities.
- Total net assets increased by \$1,100,160. Of this amount, \$773,217 is attributable to governmental activities and \$326,943 is attributable to business-type activities.
- As of September 30, 2011, the general fund's unassigned fund balance was \$518,566 or 21% of total general fund expenditures.
- Governmental activities revenues decreased to \$2,797,762 or 10%, while governmental activities expenditures decreased 9% to \$2,024,545. Business-type activities revenues increased to \$2,526,953 or 1%, while business-type activities expenditures increased 9% to \$2,200,010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to basic financial statements*. The *government-wide financial statements* present an overall picture of the City's financial position and results of operations. The *fund financial statements* present financial information for the City's major funds. The *notes to basic financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide or fund financial statements.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net assets and statement of activities*. These statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of private-sector companies. Emphasis is placed on the net assets of governmental activities and business-type activities, as well as the change in net assets. Governmental activities are primarily supported by gross receipts taxes, utility taxes and franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of those particular activities, such as water, sewer, and sanitation charges.

The *statement of net assets* presents information on all assets and liabilities of the City, with the difference between the two reported as *net assets*. Assets, liabilities and net assets are reported separately for governmental activities and business-type activities. Increases or decreases in net assets over time may serve as a useful indicator of the City's improving or declining financial position.

The *statement of activities* presents information on all revenues and expenditures of the City and the change in net assets for the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees and earned, but unused vacation/sick leave).

Expenditures are reported by major function, along with program revenues relating to those functions, providing the net cost of all functions provided by the City. In order to better understand the City's operations, governmental activities expenditures include among others, general government services, public safety, highways and streets, physical environment, human services and parks and recreation. Business-type activities expenses, which are financed by user fees and charges, include water and sewer, and sanitation services.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the City to account for revenues that are restricted to certain uses, or to comply with legal requirements. The two major categories of funds found in the City's *fund financial statements* include: governmental funds and proprietary funds.

Fund financial statements provide financial information for the City's major funds and more detailed information about the City's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

Fund financial statements for all governmental funds include a *balance sheet* and a *statement of revenues, expenditures, and changes in fund balances*. The City's general fund includes a *statement of revenues, expenditures, and changes in fund balances-budget and actual*. For the proprietary funds, a *statement of net assets*, a *statement of revenues, expenses, and changes in net assets*, and a *statement of cash flows* are presented.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City. All assets of the City, including buildings, land, and infrastructure are reported in the *statement of net assets*, as well as all liabilities, including outstanding principal on bonds, capital leases, and future employee benefits obligated but not yet paid by the City. The *statement of activities* includes depreciation on all long lived assets of the City, but all transactions between different functions of the City have been eliminated to avoid "doubling up" the revenues and expenditures.

The *fund financial statements* provide a presentation of the City's major funds, along with a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

The notes to basic financial statements provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting policies of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

Financial Analysis of the City

The following schedule provides a summary of the assets, liabilities and net assets of the City at September 30, 2011 and 2010. The City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

Net Assets

September 30,	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 3,052,422	\$ 2,785,795	\$ 3,192,619	\$ 3,166,922	\$ 6,245,041	\$ 5,952,717
Capital assets	4,599,830	4,097,381	9,380,537	9,473,627	13,980,367	13,571,008
Total assets	7,652,252	6,883,176	12,573,156	12,640,549	20,225,408	19,523,725
Current liabilities	82,648	77,095	146,332	158,042	228,980	235,137
Noncurrent liabilities	632,636	642,330	6,423,903	6,806,529	7,056,539	7,448,859
Total liabilities	715,284	719,425	6,570,235	6,964,571	7,285,519	7,683,996
Net assets invested in capital assets, net of related debt	3,992,308	3,484,103	2,966,866	2,675,925	6,959,174	6,160,028
Net assets – restricted	229,815	303,230	1,820,782	1,755,229	2,050,597	2,058,459
Net assets – unrestricted	2,714,845	2,376,418	1,215,273	1,244,824	3,930,118	3,621,242
Total net assets	\$ 6,936,968	\$ 6,163,751	\$ 6,002,921	\$ 5,675,978	\$ 12,939,889	\$ 11,839,729

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net assets (54%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets*, representing 16% of the City's net assets, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net assets* (\$3,930,118) may be used to help meet the government's ongoing obligations to citizens and creditors.

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2011 and 2010.

Changes in Net Assets

Year Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues						
Charges for services	\$ 123,845	\$ 118,312	\$ 2,517,021	\$ 2,474,407	\$ 2,640,866	\$ 2,592,719
Operating						
grants/contributions	16,159	6,544	-	-	16,159	6,544
Capital						
grants/contributions	103,990	585,673	-	-	103,990	585,673
General revenues						
Gross receipts taxes	1,654,800	1,849,104	-	-	1,654,800	1,849,104
Utility taxes/franchise fees	486,673	471,302	-	-	486,673	471,302
Interest	9,250	32,496	9,932	36,040	19,182	68,536
Other	403,045	46,201	-	2,516	403,045	48,717
Total revenues	2,797,762	3,109,632	2,526,953	2,512,963	5,324,715	5,622,595
Expenses						
General government	508,738	507,744	-	-	508,738	507,744
Public safety	610,121	705,866	-	-	610,121	705,866
Highways and streets	323,219	338,857	-	-	323,219	338,857
Human services	88,660	84,271	-	-	88,660	84,271
Parks and recreation	247,433	216,069	-	-	247,433	216,069
Physical environment	219,277	348,881	-	-	219,277	348,881
Interest on long-term debt	27,097	18,038	-	-	27,097	18,038
Water	-	-	799,340	614,674	799,340	614,674
Sewer	-	-	992,993	941,740	992,993	941,740
Sanitation	-	-	407,677	453,865	407,677	453,865
Total expenses	2,024,545	2,219,726	2,200,010	2,010,279	4,224,555	4,230,005
Increase in net assets	\$ 773,217	\$ 889,906	\$ 326,943	\$ 502,684	\$ 1,100,160	\$ 1,392,590

Governmental activities revenues exceeded expenses by \$773,217 while business-type activities revenues exceeded expenses by \$326,943. Total revenues decreased \$297,880 from the previous year. Total expenses decreased \$5,450 from the previous year.

59% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (25%), public safety (30%), parks and recreation (12%), and highways and streets (16%).

Charges for services provided 100% of the revenues for business-type activities while sewer costs made up the majority (45%) of total business-type expenses.

Financial Analysis of the City's Funds

Governmental Funds

General Fund

The main operating fund of the City is the general fund. As of September 30, 2011, total assets were \$3,052,422 and total liabilities were \$82,648. At the end of fiscal year 2011, unassigned fund balance of the general fund was \$518,566.

The general fund budget was amended during the year to reflect decreases in revenue and the corresponding decreases in expenditures which resulted from the decrease in available funds.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. All proprietary funds are reported as major funds.

Unrestricted net assets of proprietary funds at the end of the year are presented below:

Fund	Unrestricted Net Assets	
	2011	2010
September 30,		
Water	\$ 660,800	\$ 892,071
Sewer	335,604	246,150
Sanitation	218,869	106,603
Total	\$ 1,215,273	\$ 1,244,824

The *water fund* is used to account for the operations and maintenance of the City's water system.

The *sewer fund* is used to account for the operations and maintenance of the City's sewer system.

The City's *sanitation fund* is used to account for the operations and maintenance of the City's sanitation system.

Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2011, was \$13,980,367 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

**Capital Assets
(net of depreciation)**

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 237,111	\$ 150,000	\$ 288,191	\$ 288,191	\$ 525,302	\$ 438,191
Construction in progress	-	20,924	360,656	215,963	360,656	236,887
Buildings	814,905	394,310	-	-	814,905	394,310
Improvements	2,964,185	2,946,449	8,361,787	8,548,065	11,325,972	11,494,514
Machinery and equipment	583,629	585,698	369,903	421,408	953,532	1,007,106
Total	\$ 4,599,830	\$ 4,097,381	\$ 9,380,537	\$ 9,473,627	\$ 13,980,367	\$ 13,571,008

Additional information on the City's capital assets can be found in note 6 of the notes to the basic financial statements.

Debt Management

At September 30, 2011 the City had total bond debt outstanding of \$5,362,877. This debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue bonds	\$ 566,254	\$ 613,278	\$ 4,796,623	\$ 5,058,851	\$ 5,362,877	\$ 5,672,129

The Florida Constitution and the City of Mexico Beach set no legal debt limits for revenue bonds. More detailed information about the City's liabilities is presented in notes 7 and 8 of the notes to basic financial statements.

Other Financial Information

Due to a downturn in the national economy, the City's tourism industry has reflected this and taken a similar downturn.

This report was prepared by the City's finance department. Questions concerning this report or requests for additional information should be addressed to City of Mexico Beach, P.O. Box 13425, Mexico Beach, Florida 32410, attention: Debbie McLeod.

Basic Financial Statements

City of Mexico Beach, Florida
Statement of Net Assets
September 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,771,295	\$ 1,086,817	\$ 3,858,112
Accounts receivable, net	32,864	135,736	168,600
Prepaid expenses	3,022	-	3,022
Fuel inventory	15,426	-	15,426
Total current assets (unrestricted)	2,822,607	1,222,553	4,045,160
Restricted assets			
Cash and cash equivalents	229,815	1,839,504	2,069,319
Total current assets (restricted)	229,815	1,839,504	2,069,319
Total current assets	3,052,422	3,062,057	6,114,479
Noncurrent assets			
Deferred charges	-	76,375	76,375
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	237,111	648,847	885,958
Depreciable, net	4,362,719	8,731,690	13,094,409
Total noncurrent assets	4,599,830	9,511,099	14,110,929
Total assets	7,652,252	12,573,156	20,225,408
Liabilities			
Current liabilities			
Accounts payable	45,183	67,286	112,469
Payroll liabilities	30,145	11,103	41,248
Deferred revenue	7,320	49,221	56,541
Accrued interest	-	18,722	18,722
Total current liabilities	82,648	146,332	228,980
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	5,023	2,046	7,068
Notes payable	20,027	125,583	145,610
Revenue bonds payable	49,192	275,174	324,366
Due in more than one year			
Accrued compensated absences	20,091	8,186	28,278
Notes payable	21,241	1,491,465	1,512,706
Revenue bonds payable	517,062	4,521,449	5,038,511
Total noncurrent liabilities	632,636	6,423,903	7,056,539
Total liabilities	715,284	6,570,235	7,285,519
Net assets			
Invested in capital assets (net of related debt)	3,992,308	2,966,866	6,959,174
Restricted for			
Bond retirement	-	248,959	248,959
Law enforcement	23	-	23
Impact fees	229,792	1,571,823	1,801,615
Unrestricted	2,714,845	1,215,273	3,930,118
Total net assets	\$ 6,936,968	\$ 6,002,921	\$ 12,939,889

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2011

		Program Revenues			Primary Government			
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
		Expenses						Net (Expenses) Revenues and Changes in Net Assets
Functions / Programs								
Primary Government								
Governmental activities								
General government	\$ 508,738	\$ 92,103	\$ 16,159	\$ 103,040	\$ (297,436)	\$ -	\$ -	(297,436)
Public safety	610,121	15,000	-	950	(594,171)	-	-	(594,171)
Highways and streets	323,219	16,742	-	-	(306,477)	-	-	(306,477)
Human services	88,660	-	-	-	(88,660)	-	-	(88,660)
Parks and recreation	247,433	-	-	-	(247,433)	-	-	(247,433)
Physical environment	219,277	-	-	-	(219,277)	-	-	(219,277)
Interest on long-term debt	27,097	-	-	-	(27,097)	-	-	(27,097)
Total governmental activities	2,024,545	123,845	16,159	103,990	(1,780,551)	-	-	(1,780,551)
Business-type activities								
Water	799,340	928,600	-	-	-	129,260	129,260	129,260
Sewer	992,993	1,089,362	-	-	-	96,369	96,369	96,369
Sanitation	407,677	499,059	-	-	-	91,382	91,382	91,382
Total business-type activities	2,200,010	2,517,021	-	-	-	317,011	317,011	317,011
Total primary government	\$ 4,224,555	\$ 2,640,866	\$ 16,159	\$ 103,990	(1,780,551)	317,011	(1,463,540)	
General revenues								
Taxes								
Ad valorem					1,654,800	-	-	1,654,800
Utility					124,723	-	-	124,723
Local option gas tax					48,362	-	-	48,362
Franchise fees					192,228	-	-	192,228
Sales tax and other shared revenues					121,360	-	-	121,360
Miscellaneous					331,539	-	-	331,539
Sale of surplus property					71,506	-	-	71,506
Interest earnings					9,250	9,932	-	19,182
Total general revenues and interest					2,553,768	9,932	-	2,563,700
Change in net assets					773,217	326,943	-	1,100,160
Net assets - beginning					6,163,751	5,675,978	-	11,839,729
Net assets - ending					\$ 6,936,968	\$ 6,002,921	\$ -	\$ 12,939,889

City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2011

	General
Assets	
Cash and cash equivalents	\$ 2,771,295
Accounts receivable, net	32,864
Fuel inventory	15,426
Prepays	3,022
Cash and cash equivalents - restricted	229,815
Total assets	3,052,422
Liabilities and fund balance	
Liabilities	
Accounts payable	44,998
Accrued expenses	30,330
Deferred revenue	7,320
Total liabilities	82,648
Fund balance	
Nonspendable	
Inventory	15,426
Prepays	3,022
Restricted	
Impact fees	229,792
Law enforcement	23
Committed	
Canal maintenance	429,451
Paving	329,941
Assigned	
Emergency funds	1,100,000
Paving and maintenance	343,553
Unassigned	518,566
Total fund balance	2,969,774
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,599,830
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(632,636)
Net assets of governmental activities	\$ 6,936,968

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2011

	General
Revenues	
Taxes	\$ 1,838,989
Licenses and permits	205,448
Intergovernmental	245,961
Fines and forfeitures	2,020
Charges for services	69,911
Miscellaneous revenues	348,322
Total revenues	2,710,651
Expenditures	
Current operating	
General government	493,658
Public safety	565,306
Highways and streets	286,175
Physical environment	163,298
Human services	88,925
Parks and recreation	219,839
Capital outlay	599,523
Debt service	96,651
Total expenditures	2,513,375
Excess of revenues over expenditures	197,276
Other financing sources	
Installment loan proceeds	63,798
Total other financing sources	63,798
Excess of revenues and other financing sources over expenditures	261,074
Fund balance - beginning	2,708,700
Fund balance - ending	\$ 2,969,774

City of Mexico Beach, Florida
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balance of Governmental
 Funds to the Statement of Activities
 Year Ended September 30, 2011

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds (page 12)	\$	261,074
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		415,338
The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments , and donations) is to increase net assets.		87,111
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		3,938
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		5,756
<hr/>		
Change in net assets of governmental activities (page 10)	\$	<u>773,217</u>

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,912,506	\$ 1,845,531	\$ 1,838,989	\$ (6,542)
Licenses and permits	317,581	261,231	205,448	(55,783)
Intergovernmental	1,162,447	252,596	245,961	(6,635)
Fines and forfeitures	2,500	2,500	2,020	(480)
Charges for services	67,400	69,400	69,911	511
Miscellaneous revenues	75,448	348,812	348,322	(490)
Total revenues	3,537,882	2,780,070	2,710,651	(69,419)
Expenditures				
Current				
General government	583,332	546,017	493,658	52,359
Public safety	617,403	635,464	565,306	70,158
Highways and streets	331,972	352,822	286,175	66,647
Physical environment	214,666	212,124	163,298	48,826
Human services	88,603	93,913	88,925	4,988
Culture and recreation	156,133	239,948	219,839	20,109
Capital outlay	1,658,500	532,505	599,523	(67,018)
Debt service	100,273	100,273	96,651	3,622
Total expenditures	3,750,882	2,713,066	2,513,375	199,691
Excess (deficit) of revenues over (under) expenditures	(213,000)	67,004	197,276	130,272
Other financing sources				
Transfers in	345,000	230,900	-	(230,900)
Transfers out	(132,000)	(346,881)	-	346,881
Installment loan proceeds	-	-	63,798	63,798
Total other financing sources	213,000	(115,981)	63,798	179,779
Net change in fund balance	-	(48,977)	261,074	310,051
Fund balance - beginning	2,708,700	2,708,700	2,708,700	-
Fund balance - ending	\$ 2,708,700	\$ 2,659,723	\$ 2,969,774	\$ 310,051

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2011

Business-type Activities / Enterprise Funds

	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 487,875	\$ 389,986	\$ 208,956	\$ 1,086,817
Accounts receivable, net	57,856	51,866	26,014	135,736
Due from other funds	184,607	25,951	-	210,558
Total current assets	730,338	467,803	234,970	1,433,111
Restricted assets - cash				
Bond retirement	82,716	184,965	-	267,681
Impact fees	876,121	695,702	-	1,571,823
Total restricted assets - cash	958,837	880,667	-	1,839,504
Noncurrent assets				
Deferred charges	13,000	63,375	-	76,375
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,692,112	7,148,971	573,653	14,414,736
Less accumulated depreciation	(2,355,000)	(2,214,691)	(464,508)	(5,034,199)
Total noncurrent assets	4,350,112	5,051,842	109,145	9,511,099
Total assets	6,039,287	6,400,312	344,115	12,783,714
Liabilities				
Current liabilities				
Accounts payable	27,442	31,229	8,615	67,286
Accrued expenses	3,240	3,640	4,223	11,103
Due to other funds	-	210,558	-	210,558
Deferred revenue	45,661	2,571	989	49,221
Notes payable, current portion	125,583	-	-	125,583
Revenue bonds payable, current portion	112,853	162,321	-	275,174
Total current liabilities	314,779	410,319	13,827	738,925
Current liabilities payable from restricted assets				
Accrued interest	10,421	8,301	-	18,722
Total current liabilities payable from restricted assets	10,421	8,301	-	18,722
Noncurrent liabilities				
Accrued compensated absences	6,195	1,763	2,274	10,232
Notes payable - due after one year	1,491,465	-	-	1,491,465
Revenue bonds payable - due after one year	1,186,205	3,335,244	-	4,521,449
Total noncurrent liabilities	2,683,865	3,337,007	2,274	6,023,146
Total liabilities	3,009,065	3,755,627	16,101	6,780,793
Net assets				
Invested in capital assets (net of related debt)	1,421,006	1,436,715	109,145	2,966,866
Restricted for				
Bond retirement	72,295	176,664	-	248,959
Impact fees	876,121	695,702	-	1,571,823
Unrestricted	660,800	335,604	218,869	1,215,273
Total net assets	\$ 3,030,222	\$ 2,644,685	\$ 328,014	\$ 6,002,921

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2011

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 892,760	\$ 1,058,283	\$ 421,035	\$ 2,372,078
New installations	3,910	3,675	-	7,585
Reconnections	12,040	-	-	12,040
Impact fees	6,125	15,930	-	22,055
Other utility income	13,765	11,474	78,024	103,263
Total operating revenues	928,600	1,089,362	499,059	2,517,021
Operating expenses				
Personal services	125,940	114,437	204,880	445,257
Professional services	25,689	14,554	7,508	47,751
Office supplies	3,129	603	-	3,732
Utilities	20,755	19,275	-	40,030
Insurance	24,480	16,770	8,312	49,562
Repairs and maintenance	25,363	39,643	14,810	79,816
Operating supplies	24,684	40,851	47,449	112,984
Communication services	13,082	1,361	1,031	15,474
Public utility services	239,350	384,359	-	623,709
Tipping fees	-	-	101,782	101,782
Transportation	-	18	-	18
Rentals	3,033	3,033	-	6,066
Printing and binding	1,565	312	-	1,877
Miscellaneous	2,677	1,081	1,539	5,297
Amortization	1,300	6,107	-	7,407
Depreciation	174,289	198,971	20,366	393,626
Total operating expenses	685,336	841,375	407,677	1,934,388
Operating income	243,264	247,987	91,382	582,633
Nonoperating revenues (expenses)				
Interest income	5,230	4,184	518	9,932
Interest expense	(114,004)	(151,618)	-	(265,622)
Total nonoperating revenues (expenses)	(108,774)	(147,434)	518	(255,690)
Changes in net assets	134,490	100,553	91,900	326,943
Net assets - beginning	2,895,732	2,544,132	236,114	5,675,978
Net assets - ending	\$ 3,030,222	\$ 2,644,685	\$ 328,014	\$ 6,002,921

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2011

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 957,208	\$ 1,062,599	\$ 499,552	\$ 2,519,359
Payments to suppliers and others	(380,815)	(520,681)	(187,161)	(1,088,657)
Payments for personal services	(125,940)	(114,437)	(204,880)	(445,257)
Net cash provided by operating activities	450,453	427,481	107,511	985,445
Capital and related financing activities				
Principal paid on revenue bonds	-	(154,349)	-	(154,349)
Principal paid on notes and leases	(121,803)	-	-	(121,803)
Proceeds from revenue bonds	(107,879)	-	-	(107,879)
Interest paid on bonds, notes and leases	(114,789)	(171,142)	-	(285,931)
Purchase of capital assets	(300,216)	(320)	-	(300,536)
Net cash used by capital and related financing activities	(644,687)	(325,811)	-	(970,498)
Investing activities				
Interest received	5,230	4,184	518	9,932
Net cash provided by investing activities	5,230	4,184	518	9,932
Net change in cash and cash equivalents	(189,004)	105,854	108,029	24,879
Cash and cash equivalents - beginning	1,635,716	1,164,799	100,927	2,901,442
Cash and cash equivalents - ending	\$ 1,446,712	\$ 1,270,653	\$ 208,956	\$ 2,926,321
Classified as cash				
Current assets - cash and cash equivalents	\$ 487,875	\$ 389,986	\$ 208,956	\$ 1,086,817
Restricted assets - cash and cash equivalents	958,837	880,667	-	1,839,504
Cash and cash equivalents - ending	\$ 1,446,712	\$ 1,270,653	\$ 208,956	\$ 2,926,321
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 243,264	\$ 247,987	\$ 91,382	\$ 582,633
Adjustments to reconcile operating income to net cash provided by operating activities				
Amortization	1,300	6,107	-	7,407
Depreciation	174,289	198,971	20,366	393,626
(Increase) decrease in assets				
Accounts receivable, net	(1,860)	(812)	(533)	(3,205)
Due from other funds	27,826	(25,951)	1,026	2,901
Increase (decrease) in liabilities				
Accounts payable	2,702	1,650	1,404	5,756
Accrued expenses	145	18	38	201
Deferred revenue	2,642	-	-	2,642
Accrued compensated absences	1,499	(505)	411	1,405
Due to other funds	(1,354)	16	(6,583)	(7,921)
Total adjustments	207,189	179,494	16,129	402,812
Net cash provided by operating activities	\$ 450,453	\$ 427,481	\$ 107,511	\$ 985,445

See accompanying notes

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Mexico Beach, Florida (the City) have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

This summary of the City's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies are considered essential and should be read in conjunction with the accompanying financial statements.

Reporting Entity

The City of is located in eastern Bay County in northwest Florida along the Gulf of Mexico. The City operates under an elected Mayor-Council and a four-member City Council, and serves approximately 1,500 residents by providing human services, community enrichment and development, law enforcement and fire safety, and general administrative services. In addition, the City operates water, sewer and sanitation utilities.

As outlined in Governmental Accounting Standards Board (GASB) Statement 14, *The Reporting Entity*, the financial reporting entity consists of the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement 14 to determine whether the entity is: (a) part of the primary government; (b) a component unit which should be included in the reporting entity (blended or discretely presented); or (c) an organization which should be excluded from the reporting entity entirely.

The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government.

A nonprofit corporation formed by the City's volunteer fire department is considered a component unit of the City. However, its operations and assets are not material to the City's financial statements. Accordingly, the volunteer fire department's operations and financial position are not included in the City's financial statements.

There were no entities for which there were positive responses to specific criteria used for establishing oversight responsibility that were excluded from the City's financial statements. The City did not participate in any joint ventures during the year.

The City has issued certain revenue bonds for the purpose of financing of healthcare facilities owned by nonprofit organizations as discussed in note 10. The City is not liable for the repayment of such debt and accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units, if any, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and, (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

- General fund - The general fund is the City's primary operating fund. It is used to account for all resources traditionally associated with governments except those required to be accounted for in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the general fund.

The City reports the following major proprietary funds:

- The water fund is used to account for costs for collection, treatment and distribution of water services.
- The sewer fund is used to account for the costs to provide wastewater and sanitary sewer services.
- The sanitation fund is used to account for the costs to provide sanitation services.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for water, sewer, and sanitation service. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise Activities

For enterprise activities, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB) and its predecessor bodies, unless those pronouncements conflict with or contradict GASB pronouncements. Pursuant to GASB Statement 20, the City has elected not to apply all FASB statements and interpretations issued after November 30, 1989.

Budgets and Budgetary Accounting

Annual budgets are legally adopted for all governmental funds and all proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 129, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City budgets expenditures at the department level. Only the City Council can approve budget amendments that change the total approved budget appropriation of an individual department. Department managers can transfer appropriations within the departmental budget,

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

but cannot change the total appropriation of an individual department without the approval of the City Council.

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the Council by resolution may make supplemental appropriations for the year up to the amount of such excess. During the current fiscal year, various supplemental appropriations were approved by the Council in accordance with Florida Statutes.

Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column the effects of budget amendments have been applied to original budgetary data.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is used in the governmental funds. However, all encumbrances lapse at year end and, accordingly, a reserve for encumbrances is not reported in the accompanying basic financial statements.

Encumbrances are reestablished at the beginning of the fiscal year if funds are appropriated in the annual budget. Encumbrances do not constitute expenditures or liabilities.

Cash and Temporary Cash Investments

The City considers certificates of deposit and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City estimates there are no uncollectible accounts. Therefore, the City is of the opinion an allowance for doubtful accounts is not necessary. Unbilled amounts are not recorded.

Due From (To) Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

Inventories

Inventory items of materials and supplies, which are not significant in amount, are considered expenditures when purchased in the governmental funds. Inventory in the proprietary funds consists of utility supplies held for consumption or capital improvements and are valued at the

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

lower of cost market using the first-in, first-out (FIFO) method.

Amortization and Deferred Charges

Deferred charges consist of bond issue costs and are being amortized over the lives of the respective bond issues using the straight-line method.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, infrastructure, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Property, plant, and equipment with initial individual costs that exceed \$750 and estimated useful lives of over one year are recorded as capital assets. Roads, bridges, and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if actual cost is unknown. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Depreciation on all assets is provided on the straight-line basis over their estimated useful lives which are generally as follows:

Buildings	20-50 Years
Improvements other than buildings	20-50 Years
Equipment	3-15 Years
Infrastructure	10-50 Years

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issue costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Bond Costs

Bond issuance costs and legal fees associated with the issuance of proprietary fund revenue bonds are amortized over the life of the bonds using the straight-line method.

Unamortized Bond Discounts

Bond discounts associated with the issuance of proprietary fund revenue bonds are amortized over the life of the bonds using the straight-line method. For financial reporting, unamortized bond discounts are netted against the applicable long-term debt.

Accrued Compensated Absences

All full-time employees earn two weeks vacation per year (which cannot be taken until 6 months of probationary service are completed), 14 days after 5 years, 18 days after 11 years, and 20 days after 15 years. Annual leave may be accumulated at a maximum of 25 days per calendar year. Employees who have completed their probationary period are eligible for payment of accumulated annual leave not to exceed a maximum of 25 days upon their separation from the City.

Employees with one year of service may request payment of their hourly rate times a maximum of 50 percent of the employee's annually accrued vacation time up to sixty hours per year.

Six hours of sick leave is earned for each month of employment and is cumulative. Sick leave can not be used until the probationary status is completed and regular status is attained. Sick leave is only eligible for permanent employees. Employees who have worked for the City more than ten years are eligible for payment of unused sick leave and shall be compensated at the employee's current regular hourly rate of pay for one-fifth (1/5) of all unused sick leave credits accrued. Employees with less than ten years of service shall not be compensated.

Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements. No expenditure is reported in the government fund level statements for these amounts until payment is made. Proprietary fund types accrue sick leave and vacation benefits in the period they are earned. Compensated absences liability is based on current rates of pay. This is accounted for pursuant to GASB Statement 16, *Accounting for Compensated Absences*.

Property Taxes

Property taxes consist of ad valorem taxes on real and personal property within the City. Property values are determined by the Bay County Property Appraiser. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills for general operations. The City's millage rate for the year ended September 30, 2011, was 4.1060 mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax revenue is recognized when taxes are received by the City. Because any delinquent taxes collected after September 30 would not be material, delinquent taxes due are not accrued at year end. The City's tax calendar is as follows:

Lien date:	January 1
Levy date:	Not later than October 1
Delinquent date:	April 1 of year following assessment
Discount periods:	November through February (up to 4%)
Collection dates:	November 1 through March 31

Property taxes are collected by the Bay County Tax Collector. State Law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest bearing tax certificates.

Deferred Revenues

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, and in accordance with the modified accrual basis of accounting.

Fund balance

The City has implemented GASB Statement 54 employing new terminology and classifications for fund balance.

Nonspendable – This category includes the resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The balance as of September 30, 2011 of \$18,448 is from prepaid expenditures and inventory which are not in spendable form.

Restricted – This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The balance as of September 30, 2011 of \$229,815 is restricted by enabling legislation.

Committed – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority which is the City Council. The balance as of September 30, 2011 of \$759,392 is committed for canal maintenance and paving in the amounts of \$429,451 and \$329,941, respectively.

Assigned – This category includes resources that are intended to be used for specific purposes, but is neither restricted nor committed. These are resources that have been set aside for a

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

specific purpose by an authorized government body or official. Assigned funds as of September 30, 2011 consist of \$1,100,000 of emergency funds and \$343,553 for paving and maintenance.

Unassigned – This category is the residual classification for the City's fund balance. The balance as of September 30, 2011 is \$518,566.

Restricted Assets

Certain assets of the various funds are required by resolutions and ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use it is the government's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ significantly from those estimates.

Subsequent events

The City evaluates subsequent events through the date the financial statements are issued.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

Cost of capital assets	\$	6,631,776
Less: accumulated depreciation		2,031,946
<hr/>		
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	\$	4,599,830
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City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Another element of that reconciliation states, "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Revenue bonds payable	\$	566,254
Notes payable		41,268
Compensated absences		25,114
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$	632,636

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund, balance includes a reconciliation between *net change in fund balance - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$	599,523
Depreciation expense		(184,185)
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	415,338

Another element of that reconciliation states, "some expenses reported in the statement of activities do not require the use of current financial resource and, therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences	\$	3,938
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	3,938

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal repayments		
Principal payments - notes	\$	22,530
Principal payments - bonds		47,024
Debt proceeds		(63,798)
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	5,756
<hr/>		

Another element of the reconciliation states that “the net effects of miscellaneous noncash transactions involving capital assets it to increase net assets.” The detail of this difference is as follows:

Donated asset from other governmental units	\$	87,111
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	87,111
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NOTE 3 – CASH AND INVESTMENTS

The City’s cash and cash equivalents include cash on hand, demand deposits, and highly liquid debt instruments with original maturities of three months or less.

Investment Policies

Florida Statutes, Section 218.415, authorizes the City to invest surplus funds in the following:

The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01.

Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et. seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

The City had no investments at September 30, 2011.

Interest Rate Risks

At September 30, 2011, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2011, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2011, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2011, the City did not hold any deposits or investments that were considered to be a concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

At September 30, 2011, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	32,864
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	32,864

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 4 – ACCOUNTS RECEIVABLE (CONTINUED)

At September 30, 2011, accounts receivable in the proprietary funds are summarized as follows:

Accounts receivable	\$	135,736
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	135,736

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2011 is as follows:

<i>September 30,</i>	Due from Other Funds	Due to Funds	Other Funds
Water fund	\$ 184,607	\$ -	-
Sewer fund	-	-	184,607
Total	\$ 184,607	\$ -	184,607

The interfund loans were for the purpose of operating advances.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

Governmental activities

	September 30, 2010	Increases	Decreases	September 30, 2011
Capital assets, not being depreciated				
Land	\$ 150,000	\$ 87,111	\$ -	\$ 237,111
Construction in progress	20,924	-	(20,924)	-
Total capital assets, not being depreciated	170,924	87,111	(20,924)	237,111
Capital assets, being depreciated				
Buildings	472,633	431,876	-	904,509
Improvements	3,517,479	97,611	(340,325)	3,274,765
Machinery and equipment	2,179,922	90,960	(55,491)	2,215,391
Total capital assets, being depreciated	6,170,034	620,447	(395,816)	6,394,665

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2010	Increases	Decreases	September 30, 2011
Less accumulated depreciation				
Buildings	\$ (78,323)	\$ (11,281)	\$ -	\$ (89,604)
Improvements	(571,029)	(79,876)	340,325	(310,580)
Machinery and equipment	(1,594,225)	(93,028)	55,491	(1,631,762)
Total accumulated depreciation	(2,243,577)	(184,185)	395,816	(2,031,946)
Capital assets, being depreciated (net of accumulated depreciation)	3,926,457	436,262	-	4,362,719
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 4,097,381	\$ 523,373	\$ (20,924)	\$ 4,599,830

Business-type activities

Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Construction in progress	215,963	144,693	-	360,656
Total capital assets, not being depreciated	504,154	144,693	-	648,847
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,451,906	154,275	-	12,606,181
Machinery and equipment	1,147,534	1,568	-	1,149,102
Total capital assets, being depreciated	13,610,046	155,843	-	13,765,889
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(3,903,841)	(340,553)	-	(4,244,394)
Machinery and equipment	(726,126)	(53,073)	-	(779,199)
Total accumulated depreciation	(4,640,573)	(393,626)	-	(5,034,199)
Capital assets, being depreciated (net of accumulated depreciation)	8,969,473	(237,783)	-	8,731,690
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 9,473,627	\$ (93,090)	\$ -	\$ 9,380,537

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Sanitation Fund	Sewer Fund	Water Fund	Total
Land	\$ -	\$ 270,426	\$ 17,765	\$ 288,191
Construction in progress	-	-	360,656	360,656
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	5,789,127	12,606,181
Machinery and equipment	573,653	61,491	513,958	1,149,102
Total	573,653	7,148,971	6,692,112	14,414,736
Less accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(2,191,358)	(2,053,036)	(4,244,394)
Machinery and equipment	(464,508)	(23,333)	(291,358)	(779,199)
Total accumulated depreciation	(464,508)	(2,214,691)	(2,355,000)	(5,034,199)
Total business-type activities capital assets (net of accumulated depreciation)	\$ 109,145	\$ 4,934,280	\$ 4,337,112	\$ 9,380,537

Depreciation expense was charged to governmental activities functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 16,352
Public safety	45,549
Highways and streets	37,941
Physical environment	56,526
Parks and recreation	27,817
Total depreciation expense – governmental activities	\$ 184,185

Depreciation expense was charged to business-type functions/programs of the primary government as follows:

Water	\$ 174,289
Sewer	198,971
Sanitation	20,366
Total depreciation expense – business-type activities	\$ 393,626

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2010	Increase	Reduction	Balance September 30, 2011	Due within one year
Notes Payable					
Note payable for the purchase of a backhoe, payable in annual installments of \$22,530, including 5.9% interest and maturing in August 2013.	\$ -	\$ 63,798	\$ (22,530)	\$ 41,268	\$ 20,027
Total notes payable	-	63,798	(22,530)	41,268	20,027
Bonds Payable					
2009 Utility Systems Refunding Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021. (See (B) in Note 8).	459,959	-	(35,268)	424,691	36,894
2009 Capital Improvement Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021. (See (C) in Note 8).	153,319	-	(11,756)	141,563	12,298
Total bonds payable	613,278	-	(47,024)	566,254	49,192
Liability for compensated absences	29,052	-	(3,939)	25,113	5,023
Total governmental activities long-term obligations	\$ 642,330	\$ 63,798	\$ (73,493)	\$ 632,635	\$ 74,242

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Debt service requirements to maturity for the governmental funds at September 30, 2011 are as follows:

Year ending September 30,	Principal	Interest	Total
2012	\$ 69,219	\$ 27,052	\$ 96,271
2013	72,616	23,596	96,212
2014	53,673	19,969	73,642
2015	56,091	17,524	73,615
2016	58,648	14,969	73,617
2017-2021	297,275	32,526	329,801
Compensated absences	25,113	-	25,113
Total	\$ 632,635	\$ 135,636	\$ 768,271

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

Bonds Payable	Original Issue	Balance September 30, 2010	Additions	Deductions	Balance September 30, 2011	Due Within One Year
2009 Utility System Refunding Bonds. (See (B) below).	\$ 2,490,000	\$ 2,245,688	\$ -	\$ (171,831)	\$ 2,073,857	\$ 180,131
2009 Capital Improvement Bonds. (See (C) below).	830,001	748,563	-	(57,397)	691,166	60,043
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system. See (A) below.	2,303,100	2,064,600	-	(33,000)	2,031,600	35,000
Total bonds payable – enterprise funds		\$ 5,058,851	\$ -	\$ (262,228)	\$ 4,796,623	\$ 275,174

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

A synopsis of long-term debt covenants for the water and sewer bonds follows:

- (A) Water and Sewer Revenue Bonds, Series 2000 - \$2,031,600 balance. The bonds are secured by a junior and subordinate pledge of gross revenues of the system. The bonds are due in annual installments each through September 1, 2039; interest at 4.875% per annum is payable annually on September 1. Annual principal and interest payments on the bonds are 24 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,893,100. Principal and interest paid for the current year and total pledged revenues were \$134,000 and \$551,598, respectively.
- (B) 2009 Utility Refunding Bond, Series 2009 - \$2,498,548 balance. These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of net revenue of the water and sewer system, such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 37 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,079,862. Principal and interest paid for the current year and total pledged revenues were \$325,217 and \$876,815, respectively.
- (C) 2009 Capital Improvements Bond, Series 2009 - \$832,729 balance. These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 100 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$1,026,620. Principal and interest paid for the current year and total pledged revenues were \$108,406 and \$108,406, respectively.

There are a number of limitations and restrictions contained in the various bond indentures, including the establishment of specified debt service sinking and reserve accounts. The City is in compliance with all significant limitations and restrictions.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Debt service requirements to maturity on revenue bonds payable at September 30, 2011 are as follows:

Year ending September 30,	Principal	Interest	Total
2012	\$ 275,174	\$ 219,358	\$ 494,532
2013	287,329	206,419	493,748
2014	300,551	193,497	494,048
2015	313,857	179,560	493,417
2016	328,840	165,085	493,925
2017-2021	1,695,412	1,896,789	3,592,201
2022-2026	310,000	361,500	671,500
2027-2031	392,500	278,500	671,000
2032-2036	498,500	173,000	671,500
2037-2039	394,460	41,859	436,319
Total	\$ 4,796,623	\$ 3,715,567	\$ 8,512,190

Notes Payable

	Balance September 30, 2010	Increase	Reduction	Balance September 30, 2011	Due within one year
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (D) below).	\$ 1,738,851	\$ -	\$ (121,803)	\$ 1,617,048	\$ 125,583
Total notes payable – enterprise	\$ 1,738,851	\$ -	\$ (121,803)	\$ 1,617,048	\$ 125,583

A synopsis of significant enterprise fund notes payable follows:

- (D) The balance of \$1,617,048 note payable to the State Revolving Fund was made to the City for the purpose of financing the cost of replacing public water system lines. The loan is repayable over 20 years in semiannual installments each January 15 and July 15 of \$87,214 including interest at 3.08%. The loan is secured by pledged revenues of water charges by the utility fund. Annual principal and interest payments on the bonds are 20 percent of pledged revenues. The total principal and interest remaining to be paid on the note is \$1,918,716. Principal and interest paid for the current year and total pledged revenues were \$174,429 and \$892,760, respectively.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Debt service requirements to maturity on notes payable at September 30, 2011 are as follows:

Year ending September 30,	Principal	Interest	Total
2012	\$ 125,583	\$ 48,845	\$ 174,428
2013	129,481	44,948	174,429
2014	133,500	40,929	174,429
2015	137,643	36,786	174,429
2016	141,915	32,514	174,429
2017-2021	778,445	93,699	872,144
2022-2022	170,481	3,947	174,428
Total	\$ 1,617,048	\$ 301,668	\$ 1,918,716

NOTE 9 – FUND EQUITY

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$229,815 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,820,782 of restricted net assets, of which, \$1,571,823 is restricted by enabling legislation.

Reserved Fund Equity

Reservations of equity show amounts that are not appropriated for expenditure or are legally restricted for specific uses. The purpose for each is indicated as follows:

Funds	Purpose	Amount
General fund	Impact fees	\$ 229,792
General fund	Law enforcement	23
Water fund	Debt service	72,295
Water fund	Impact fees	876,121
Sewer fund	Debt service	176,664
Sewer fund	Impact fees	695,702
Total reserved fund equity		\$ 2,050,597

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City of Mexico Beach.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingent Liability

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be minimal.

Conduit Debt Obligations

The City is authorized by the provisions of Chapter 159, Part II, Florida Statutes to make and execute financing agreements which provide assistance to qualified nonprofit corporations to finance and refinance healthcare facilities and other projects described in Section 159.27, Florida Statutes. In December 1997, the City sponsored a \$150,000,000 local government floating rate bond issue from which the proceeds were used to make variable rate loans to those entities described above. Any loans issued for financing these projects are secured by a pledge of the revenue derived from the projects and security interests in such projects.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

NOTE 11 – PENSION PLAN

Plan Description and Administration

The City participates in the Florida Retirement System (FRS) which is a multiple-employer; cost-sharing retirement system established by Chapter 121, Florida Statutes. The Florida Retirement System is administered by the Division of Retirement of the State of Florida Department of Administration. The City's payroll for employees covered by the system for the years ended September 30, 2011, 2010 and 2009 was \$1,128,361, \$1,163,168, and \$1,175,478, respectively.

FRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of Florida Division of Retirement, 1317 Winewood Blvd., Bldg B, Tallahassee, Florida, 32399-1560.

The system provides vesting of benefits after 6 years of creditable service. Members are eligible for normal retirement after attaining age 62 or 30 years of service. Generally, membership is compulsory for all full-time and part-time employees, except for elected City officials who may elect to not participate in the System. The plan was noncontributory for employees but as of July 1, 2011 the employees contribute 3%.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 11 – PENSION PLAN (CONTINUED)

The rates, as a percentage of gross earnings, are as follows:

	October 1, 2010 through June 30, 2011	July 1, 2011 through September 30, 2011
Regular employees	10.77%	4.91%
Special risk employees	23.25%	14.10%

During the year ended September 30, 2011, the City contributed \$135,509 to the system. These contributions represented 12% of covered payroll.

Three Year Trend Information

Year Ended September 30,	Annual Pension Cost (APC)	Percent of APC Contribution	Net Pension Obligation
2011	\$ 135,509	100%	-
2010	149,039	100%	-
2009	142,214	100%	-

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, *Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governments who provide postemployment benefits other than pensions are required to show all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City has no related expense or liability at September 30, 2011.

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and/or the public; or damage to property of others; and natural disasters for which the City carries commercial insurance. Insurance against losses is provided for the following types of risk:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 13 – RISK MANAGEMENT (CONTINUED)

- Workers' compensation and employer's liability
- General and automobile liability
- Real and personal property damage
- Public officials' liability
- Accidental death and dismemberment

The City's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk.

NOTE 14 – INTERLOCAL AGREEMENTS

The City entered into a wastewater treatment contract with Bay County in May 1997, whereby Bay County will exclusively reserve for the City 323,000 gallons per day of allocated wastewater treatment capacity of the Military Point Advanced Wastewater Treatment Facility. The City has agreed to pay for such capacity and treatment services for wastewater collected from City customers.

The City has entered into a memorandum of agreement with the Mexico Beach Community Development Council, Inc. (the Council) for the maintenance of the City's municipal canal and beaches. The agreements which are renewable annually, provide for the Council to pay the City \$18,000 and \$15,000 annually respectively, for canal and beach maintenance. Additionally, the City has entered into an agreement with the Council for the maintenance and operation of the City's public television station granted by franchise agreement, at no cost to the Council.

Supplementary Information

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Water Fund
Proprietary Funds

September 30,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 487,875	\$ 686,246
Accounts receivable, net	57,856	55,996
Due from other funds	184,607	212,433
Total current assets	730,338	954,675
Restricted assets - cash		
Bond and interest sinking	82,716	82,282
Impact fees	876,121	867,188
Total restricted assets - cash	958,837	949,470
Noncurrent assets		
Deferred charges	13,000	14,300
Property, plant, and equipment	6,692,112	6,391,896
Less accumulated depreciation	(2,355,000)	(2,180,711)
Total noncurrent assets	4,350,112	4,225,485
Total assets	6,039,287	6,129,630
Liabilities		
Current liabilities		
Accounts payable	27,442	24,740
Accrued expenses	3,240	3,095
Due to other funds	-	1,354
Deferred revenue	45,661	43,019
Notes payable, current portion	125,583	121,803
Revenue bonds payable, current portion	112,853	107,879
Total current liabilities	314,779	301,890
Current liabilities payable from restricted assets		
Accrued interest	10,421	11,206
Total current liabilities payable from restricted assets	10,421	11,206
Noncurrent liabilities		
Accrued compensated absences	6,195	4,696
Notes payable - due after one year	1,491,465	1,617,048
Revenue bonds payable - due after one year	1,186,205	1,299,058
Total noncurrent liabilities	2,683,865	2,920,802
Total liabilities	3,009,065	3,233,898
Net assets		
Invested in capital assets (net of related debt)	1,421,006	1,065,397
Restricted for		
Bond retirement	72,295	71,076
Impact fees	876,121	867,188
Unrestricted	660,800	892,071
Total net assets	\$ 3,030,222	\$ 2,895,732

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Sewer Fund
Proprietary Funds

September 30,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 389,986	\$ 320,009
Accounts receivable, net	51,866	51,054
Due from other funds	25,951	-
Total current assets	467,803	371,063
Restricted assets - cash		
Bond and interest sinking	184,965	167,216
Impact fees	695,702	677,574
Total restricted assets - cash	880,667	844,790
Noncurrent assets		
Deferred charges	63,375	69,482
Capacity rights	54,187	54,187
Property, plant, and equipment	7,148,971	7,148,651
Less accumulated depreciation	(2,214,691)	(2,015,720)
Total noncurrent assets	5,051,842	5,256,600
Total assets	6,400,312	6,472,453
Liabilities		
Current liabilities		
Accounts payable	31,229	29,579
Accrued expenses	3,640	3,622
Due to other funds	210,558	210,542
Deferred revenue	2,571	2,571
Revenue bonds payable, current portion	162,321	154,709
Total current liabilities	410,319	401,023
Current liabilities payable from restricted assets		
Accrued interest	8,301	27,825
Total current liabilities payable from restricted assets	8,301	27,825
Noncurrent liabilities		
Accrued compensated absences	1,763	2,268
Revenue bonds payable - due after one year	3,335,244	3,497,205
Total noncurrent liabilities	3,337,007	3,499,473
Total liabilities	3,755,627	3,928,321
Net assets		
Invested in capital assets (net of related debt)	1,436,715	1,481,017
Restricted for		
Bond retirement	176,664	139,391
Impact fees	695,702	677,574
Unrestricted	335,604	246,150
Total net assets	\$ 2,644,685	\$ 2,544,132

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Sanitation Fund
Proprietary Funds

September 30,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 208,956	\$ 100,927
Accounts receivable, net	26,014	25,481
Due from other funds	-	1,026
Total current assets	234,970	127,434
Noncurrent assets		
Property, plant, and equipment	573,653	573,653
Less accumulated depreciation	(464,508)	(444,142)
Total noncurrent assets	109,145	129,511
Total assets	344,115	256,945
Liabilities		
Current liabilities		
Accounts payable	8,615	7,211
Accrued expenses	4,223	4,185
Due to other funds	-	6,583
Deferred revenue	989	989
Total current liabilities	13,827	18,968
Noncurrent liabilities		
Accrued compensated absences	2,274	1,863
Total noncurrent liabilities	2,274	1,863
Total liabilities	16,101	20,831
Net assets		
Invested in capital assets (net of related debt)	109,145	129,511
Unrestricted	218,869	106,603
Total net assets	\$ 328,014	\$ 236,114

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Water Fund
 Proprietary Funds

Year Ended September 30,	2011	2010
Operating revenues		
Charges for services	\$ 892,760	\$ 871,239
New installations	3,910	13,091
Reconnections	12,040	11,436
Impact fees	6,125	6,125
Other utility income	13,765	18,405
Total operating revenues	928,600	920,296
Operating expenses		
Personal services	125,940	82,569
Professional services	25,689	40,258
Office supplies	3,129	1,443
Utilities	20,755	15,457
Insurance	24,480	25,636
Repairs and maintenance	25,363	24,846
Operating supplies	24,684	27,372
Communication services	13,082	15,000
Public utility services	239,350	125,083
Rentals	3,033	-
Printing and binding	1,565	1,847
Miscellaneous	2,677	3,085
Amortization	1,300	1,300
Depreciation	174,289	170,714
Total operating expenses	685,336	534,610
Operating income	243,264	385,686
Nonoperating revenues (expenses)		
Interest income	5,230	19,543
Interest expense	(114,004)	(80,064)
Total nonoperating revenues (expenses)	(108,774)	(60,521)
Change in net assets	134,490	325,165
Net assets - beginning	2,895,732	2,570,567
Net assets - ending	\$ 3,030,222	\$ 2,895,732

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Sewer Fund
 Proprietary Funds

Year Ended September 30,	2011	2010
Operating revenues		
Charges for services	\$ 1,058,283	\$ 1,042,900
New installations	3,675	2,450
Impact fees	15,930	10,625
Other utility income	11,474	15,055
Total operating revenues	1,089,362	1,071,030
Operating expenses		
Personal services	114,437	108,831
Professional services	14,554	14,048
Office supplies	603	619
Utilities	19,275	17,583
Insurance	16,770	17,840
Repairs and maintenance	39,643	29,072
Operating supplies	40,851	32,913
Communication services	1,361	3,089
Public utility services	384,359	361,846
Transportation	18	-
Rentals	3,033	-
Printing and binding	312	-
Miscellaneous	1,081	598
Amortization	6,107	6,107
Depreciation	198,971	199,894
Total operating expenses	841,375	792,440
Operating income	247,987	278,590
Nonoperating revenues (expenses)		
Interest income	4,184	15,268
Interest expense	(151,618)	(149,300)
Total nonoperating revenues (expenses)	(147,434)	(134,032)
Change in net assets	100,553	144,558
Net assets - beginning	2,544,132	2,399,574
Net assets - ending	\$ 2,644,685	\$ 2,544,132

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Sanitation Fund
 Proprietary Funds

Year Ended September 30,	2011	2010
Operating revenues		
Charges for services	\$ 421,035	\$ 411,608
Other utility income	78,024	73,989
Total operating revenues	499,059	485,597
Operating expenses		
Personal services	204,880	245,997
Professional services	7,508	9,315
Insurance	8,312	8,732
Repairs and maintenance	14,810	17,360
Operating supplies	47,449	40,206
Communication services	1,031	1,879
Tipping fees	101,782	89,957
Miscellaneous	1,539	6,402
Depreciation	20,366	34,017
Total operating expenses	407,677	453,865
Operating income	91,382	31,732
Nonoperating revenues (expenses)		
Interest income	518	1,229
Total nonoperating revenues (expenses)	518	1,229
Change in net assets	91,900	32,961
Net assets - beginning	236,114	203,153
Net assets - ending	\$ 328,014	\$ 236,114

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Water Fund
Proprietary Funds

Year Ended September 30,	2011	2010
Operating activities		
Receipts from customers and users	\$ 957,208	\$ 958,836
Payments to suppliers and others	(380,815)	(305,387)
Payments for personal services	(125,940)	(82,569)
Net cash provided by operating activities	450,453	570,880
Capital and related financing activities		
Principal paid on notes and leases	(121,803)	(118,136)
Proceeds from revenue bonds	(107,879)	(128,376)
Interest paid on bonds, notes, and leases	(114,789)	(98,021)
Purchase of capital assets	(300,216)	(152,938)
Net cash used in capital and related financing activities	(644,687)	(497,471)
Investing activities		
Interest received	5,230	19,543
Net cash provided by investing activities	5,230	19,543
Net change in cash and cash equivalents	(189,004)	92,952
Cash and cash equivalents, beginning	1,635,716	1,542,764
Cash and cash equivalents, ending	\$ 1,446,712	\$ 1,635,716
Classified as cash		
Current assets - cash and cash equivalents	\$ 487,875	\$ 686,246
Restricted assets - cash and cash equivalents	958,837	949,470
Cash and cash equivalents, ending	\$ 1,446,712	\$ 1,635,716
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 243,264	\$ 385,686
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	1,300	1,300
Depreciation	174,289	170,714
(Increase) decrease in assets		
Accounts receivable, net	(1,860)	23,026
Due from other funds	27,826	2,753
Increase (decrease) in liabilities		
Accounts payable	2,702	(7,808)
Accrued expenses	145	689
Deferred revenue	2,642	12,761
Accrued compensated absences	1,499	41
Due to other funds	(1,354)	(18,282)
Total adjustments	207,189	185,194
Net cash provided by operating activities	\$ 450,453	\$ 570,880

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Sewer Fund
Proprietary Funds

Year Ended September 30,	2011	2010
Operating activities		
Receipts from customers and users	\$ 1,062,599	\$ 1,060,168
Payments to suppliers and others	(520,681)	(510,237)
Payments for personal services	(114,437)	(108,831)
Net cash provided by operating activities	427,481	441,100
Capital and related financing activities		
Principal paid on revenue bonds	(154,349)	(176,838)
Interest paid on bonds, notes, and leases	(171,142)	(149,300)
Purchase of capital assets	(320)	(945)
Net cash used in capital and related financing activities	(325,811)	(327,083)
Investing activities		
Interest received	4,184	15,268
Net cash provided by investing activities	4,184	15,268
Net increase in cash and cash equivalents	105,854	129,285
Cash and cash equivalents, beginning	1,164,799	1,035,514
Cash and cash equivalents, ending	\$ 1,270,653	\$ 1,164,799
Classified as cash		
Current assets - cash and cash equivalents	\$ 389,986	\$ 320,009
Restricted assets - cash and cash equivalents	880,667	844,790
Cash and cash equivalents, ending	\$ 1,270,653	\$ 1,164,799
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 247,987	\$ 278,590
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	6,107	6,107
Depreciation	198,971	199,894
(Increase) decrease in assets		
Accounts receivable, net	(812)	(12,281)
Due from other funds	(25,951)	1,419
Increase (decrease) in liabilities		
Accounts payable	1,650	(11,307)
Accrued expenses	18	1,051
Accrued compensated absences	(505)	(259)
Due to other funds	16	(22,114)
Total adjustments	179,494	162,510
Net cash provided by operating activities	\$ 427,481	\$ 441,100

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Sanitation Fund
Proprietary Funds

Year Ended September 30,	2011	2010
Operating activities		
Receipts from customers and users	\$ 499,552	\$ 495,682
Payments to suppliers and others	(187,161)	(167,873)
Payments for personal services	(204,880)	(245,997)
Net cash provided by operating activities	107,511	81,812
Capital and related financing activities		
Purchase of capital assets	-	(29,392)
Net cash used in capital and related financing activities	-	(29,392)
Investing activities		
Interest received	518	1,229
Net cash provided by investing activities	518	1,229
Net increase in cash and cash equivalents	108,029	53,649
Cash and cash equivalents, beginning	100,927	47,278
Cash and cash equivalents, ending	\$ 208,956	\$ 100,927
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 91,382	\$ 31,732
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	20,366	34,017
(Increase) decrease in assets		
Accounts receivable, net	(533)	(6,546)
Due from other funds	1,026	16,631
Increase (decrease) in liabilities		
Accounts payable	1,404	923
Accrued expenses	38	(115)
Accrued compensated absences	411	(1,413)
Due to other funds	(6,583)	6,583
Total adjustments	16,129	50,080
Net cash provided by operating activities	\$ 107,511	\$ 81,812

Compliance Section



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and Members
of the City Council
City of Mexico Beach, Florida

We have audited the financial statements of the City of Mexico Beach, Florida, as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated February 24, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our independent auditor's report on internal control over financial reporting and on compliance and other matters. Disclosures in this report, which is dated February 24, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to the extent considered necessary, other than for those comments repeated in the Report on Internal Control over financial reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

- Findings reported the two previous years include 11-01, 11-02.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Mexico Beach, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Mexico Beach, Florida, was established in 1967, under a Charter in accordance with the laws of Florida 67-1717. There are no component units of the City.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Mexico Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2011, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(i)7.c., and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Mexico Beach, Florida's management, the City Council, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

February 24, 2012



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members
of the City Council
City of Mexico Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

Management of the City of Mexico Beach is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

11-01 (Prior year 10-01 and 09-01) Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Management's response - Management has considered the above significant deficiencies in the City's internal control and believes the costs required to correct them would outweigh the benefits derived from implementing corrective action.

11-02 (Prior year 10-02 and 09-02) Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

Management's response - Management has considered the above significant deficiencies in the City's internal control and believes the costs required to correct them would outweigh the benefits derived from implementing corrective action.

The City's responses to the findings identified in our audit are included above. We did not audit the City's responses and, accordingly, we express no opinion on them.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Caus Riggs & Ingram, L.L.C.

February 24, 2012